

17 FEB 1984

MEMORANDUM FOR: Chief, Information and Management Support Staff, OL

STAT FROM:
Chief, Procurement Management Staff, OL

SUBJECT: Grace Commission Report - Task Force Report on
Procurement/Contracts/Inventory Management

Comments on recommendations in the subject report are as follows:

PROC 1-1 through 1-3

Comment: These recommendations have general application to the entire federal government process. They strengthen the Office of Federal Procurement Policy (OFPP), will have long term positive impact and should be supported.

PROC 2-1 through 2-4

Comment: These recommendations have general application to the federal acquisition process and should be supported. In fact, we feel that the Commission should have made one other recommendation, i.e., to designate a group to evaluate a system for implementing socioeconomic programs through the tax process or other methods rather than via its contracts for supplies and services.

PROC 3: Carlucci Initiatives; PROC 4: Multiyear Contracting; PROC 5: Program Prioritization; and, PROC 6 through 9: Project Management Issues Overview

Comment: These recommendations are specifically for DOD and focus on major weapon systems acquisition. While most of the recommendations seem to have merit for DOD, one must remember that DOD has a procurement budget of more than \$125 billion and employs more than 100,000 personnel in its procurement process. CIA, with fewer than procurement officers and a miniscule procurement budget, could not possibly implement the recommendations. We do note that PROC 4, Multiyear Contracting, is of interest and might be of use in selected CIA programs.

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PROC 10 through 13: Inventory Issues Overview

Comment: These recommendations deal with supply management and are outside the purview of procurement.

PROC 14-1: Separate the Policy and Service Functions Currently in GSA

Comment: This recommendation would further consolidate the policy function in OFPP. We recommend that CIA support it.

PROC 14-2: "To ensure the greatest possible 'economies of scale' direct all government agencies to use GSA for procurement, with following exceptions. . ."

Comment: The exceptions immediately allow DOD to exclude themselves from using GSA, i.e., "Procurement for defense of the country." CIA's mission is no less critical than DOD's. Also, our requirements are more like DOD's than those of a civilian agency. While CIA has special authority under its "Act" and other laws and regulations to procure services and supplies necessary for its mission, a fourth exception should be added for the Central Intelligence Agency.

PROC 15-1 through 15-4

Comment: These recommendations impact GSA's internal organization. We are not in a position to comment.

PROC 16-1 through 16-2

Comment: These recommendations address internal DOD reorganization issues on which we are not in a position to comment.

PROC 17-1 through 17-2

Comment: These recommendations address internal DOD changes which will spark considerable discussion between the services and DLA. Having said this, we are not in a position to comment.

PROC 18-1 through 18-3

Comment: These recommendations are for greater use of the OMB circular A-76 process to determine whether functions can more economically be done by government employees or contracted out. CIA has essentially exempted itself from mandatory use of A-76, retaining maximum flexibility as to when to apply its principles. Notice of this policy has been given to OMB.

PROC 19-1 through 19-2

Comment: These recommendations have general impact on the federal acquisition system. They are intended to guard against awards to contractors with poor performance. They establish accountability for managers making awards to poor performers. They should be supported.

PROC 20-1: Increase the Centralization of Civilian Agency Procurement

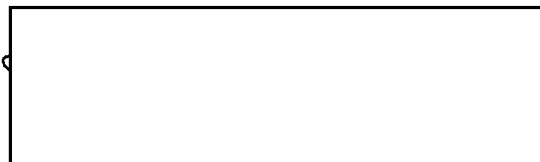
Comment: While centralization may effect economics in some areas, we have gone the other way in CIA. We believe that a mix of centralization and decentralization must be continued if we are to continue to be responsive. We would not support this recommendation for this Agency.

PROC 21-1 through 21-2

Comment: These recommendations would reduce the number of multiple-award contracts and thereby optimize rather than maximize competition. We suggest the Agency's support.

PROC 22-1

Comment: This recommendation will have government-wide application, and we should support it.



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Proc 10-1

Proc 10-2

Proc 10-4

Proc 10-6

Proc 12-1

Review PKD
input before final

LI 45-43 Rev. Feb 83

PROC 12-1: DOD should initiate a program of "wall-to-wall" inventory taking on a periodic basis. Based upon the Task Force observations, we believe that the taking of

"wall-to-wall" inventories is feasible and cost effective. Since this represents an important change, however, a pilot program to prove its feasibility is needed. As a first step, we recommend the following approach:

- o For each of the services and DLA, select one depot as a test location. It should be noted that a depot can contain dozens of warehouses in which material may be stored.
- o Under the auspices of the Defense Audit Agency, take a "wall-to-wall" inventory at selected warehouses within the depot. The number of warehouses selected will depend on the nature of the items stocked.
- o Impose formal cutoffs relating the receipt of incoming shipments, movement of material within the warehouse, and filling of requisitions.

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"Wall-to-wall" inventories are performed in and completed in a 3 year time frame. Broken down into Categories as follows.

Category I. A 100% inventory is made on material with strong personnel appeal and material determined critical or difficult to replace on an annual basis. Painted forms that are determined critical forms by Records Management Div., Office of Information Services / DDA are inventoried quarterly on a 100% basis.

Category II. High cost material with large dollar demand and material with a history of high inventory discrepancies are inventoried on a 50% basis annually resulting in a complete wall-to-wall inventory every 2 years.

Category III. All other material not classified as Category I or II are inventoried on a percentage basis determined by the Inventory and Audit Section / OSA depending on the activity during the past 2 years. These are usually very slow moving items. These items are inventoried taking a 33 1/3% basis yearly resulting in a complete wall-to-wall inventory every 3 years.

PROC 10-1: DOD should require compliance with the EOQ system, and should eliminate as much of the variation in each Service with respect to forecasting demand and use of the EOQ. An audit program should be initiated to ensure compliance.

Due to the relative small size of Agency inventories, space limitations, changing programs and the inability to measure inventory procurement & inventory carrying cost EOQ theory is not utilized by agency inventory managers. Demand forecasting is based upon either of two factors: A) specific material requirements for specific Agency programs and B) recent issue experience (history) obtained from the ~~an~~ automated inventory control system.

PROC 10-2: DOD should establish guidelines for the Services to regularly assess and adjust to current levels the purchasing and inventory carrying costs.

It is a requirement of the LIMS modernization project to provide managers with these costs. Existing automation does not provide accurate information necessary to measure purchasing and inventory carrying costs.

PROC 10-4: DOD should re-initiate the task of determining what inventory is required for readiness purposes and encoding all items with a relative essentiality factor. Up to now, the Services have not complied with the regulation that recommends this. This factor should be included in the Variable Safety Level calculation. Then, with a given average fill rate, the least essential items required for defense readiness will have lower fill rates, and the more essential items required for defense readiness will have higher fill rates.

Due to ^{Agency} programs supported inventories must be expensive and it is therefore expected that Agency fill rate ratios ~~are~~ generally maintained at consistent high levels.

PROC 10-6: DOD should introduce guidelines for adopting some of the private sector techniques for keeping inventories low with appropriate consideration for readiness requirements for those inventories affected. Such techniques included seeking shorter vendor lead time and

having vendors hold material to be ordered later on request, price concessions, timing of supply, and return to vendor privileges. (Matters relating to weapon systems are not included in this discussion.)

PD should comment on seeking shorter vendor lead times.

From the supply side of the house planning for inventory replenishment (within funding limitations) of large volume/high dollar ^(items) includes the requirement to study the feasibility of placing orders on an annual basis, but scheduling delivery on a monthly or quarterly basis. This strategy helps to minimize carrying cost while at the same time increases the efficiency of our warehouse space utilization.